ECONOMIC PREVIEW

REGIONS

Week of October 15, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 7-8 FOMC meeting):* Target Range Midpoint: 2.125 to 2.125 percent Median Target Range Midpoint: 2.125 percent	Range: 2.00% to 2.25% Midpoint: 2.125%	"We don't know where we're going, but once we get there we'll probably keep going" isn't exactly effective travel guidance. Neither is it effective guidance for monetary policy. Fed Chairman Powell was correct in saying that "we're a long way from neutral." As has been the case since late-2009, the inflation-adjusted effective Fed funds rate is still negative, which is wholly unwarranted at this stage of the expansion. He and other FOMC members, however, have downplayed estimates of what constitutes "neutral," in essence pulling up a key anchor for long-term interest rates, while at the same time noting the likelihood that policy will push past neutral. As such, it's hard to truly know whether recent market volatility reflects panic over the FOMC moving to neutral or fear of the FOMC blowing past neutral and making an expansion-ending policy mistake – we suspect it's more the latter than the former. To the extent the FOMC still offers forward guidance, focusing on getting to neutral rather than on what happens once we get to neutral would be far more effective.
September Retail Sales: Total Monday, 10/15 Range: 0.3 to 1.0 percent Median: 0.6 percent	Aug = +0.1%	Up by 0.8 percent. As with other data series, the September retail sales data will likely show some effects from Hurricane Florence, but those effects should not be large and could be more in terms of the distribution of sales, i.e., favoring grocery store and building materials stores at the expense of more discretionary categories, than in terms of the volume of sales. More broadly, gasoline sales should be a positive for top-line sales, but only modestly so as price effects countered stronger demand. Given the 4.3 percent increase in unit sales, motor vehicle sales should be a positive for total retail sales. That said, given the mysterious mapping between unit sales and the dollar volume of sales reported in the retail sales data, not to mention the ridiculously large decline in used car prices reported in the September CPI data, we won't be at all surprised if the retail sales data underperform our expectations in this category. Apparel sales fell sharply in August, which to some extent reflected the near-record decline in apparel prices reported in the August CPI data. As apparel prices rebounded sharply in September our forecast anticipates a rebound in apparel sales. While it would not be unusual to see a jump in sales at building materials stores following a hurricane, whether any such post-hurricane effect turns up in the initial estimate of September sales remains to be seen, though our forecast anticipates a modest increase. In short, there figures to be more than the usual degree of noise in the September retail sales report, but the bottom line is that U.S. consumers remain in fine form given solid growth in labor earnings and elevated consumer confidence.
September Retail Sales: Ex-Auto Monday, 10/15 Range: 0.2 to 1.0 percent Median: 0.4 percent	Aug = +0.3%	Up by 0.5 percent.
Sept. Retail Sales: Control Group Monday, 10/15 Range: 0.2 to 0.5 percent Median: 0.4 percent	Aug = +0.1%	Up by 0.5 percent. Our forecast would put growth in Q3 nominal control sales – a direct input into the GDP data on consumer spending – at 5.6 percent (annualized), which is strong growth even if shy of the 6.5 percent growth seen in Q2. In other words, Q3 will go down as another quarter of solid growth in consumer spending.
August Business Inventories Monday, 10/15 Range: 0.3 to 0.6 percent Median: 0.5 percent	Jul = +0.6%	We look for both total business inventories and total business sales to be up by 0.5 percent. Data through August suggest that, after knocking 1.17 percentage points off of top-line real GDP growth in Q2, inventories will be a material boost to Q3 growth.
September Industrial Production Tuesday, 10/16 Range: 0.0 to 0.4 percent Median: 0.2 percent	Aug = +0.4%	Up by 0.2 percent. Our forecast anticipates Hurricane Florence held down growth in manufacturing output, particularly motor vehicle assemblies, and led to a decline in utilities output. We do not, however, expect there to be any material impact on output in the mining sector. Our forecast would leave total IP up 5.1 percent year-on-year.
September Capacity Utilization Rate Tuesday, 10/16 Range: 77.9 to 78.3 percent Median: 78.2 percent	Aug = 78.1%	Up to 78.2 percent.
September Housing Permits Wednesday, 10/17 Range: 1.220 to 1.310 million units Median: 1.275 million units SAAR	Aug = 1.249 million units, SAAR	Up to an annualized rate of 1.273 million units. On a not seasonally adjusted basis, we look for total permits of 110,200 units, which incorporates lower permit issuance in the South region to reflect the effects of Hurricane Florence. Aside from that, we would not have expected the September data to have diverged from the general pattern that has held for some time now, i.e., single family permits rising at a slow but steady pace while multi-family permit issuance drifts lower at what we think is too slow of a pace. Our forecast would put the running 12-month total of not seasonally adjusted permits at 1.263 million units, the highest since March 2008.

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September Housing Starts Wednesday, 10/17 Range: 1.179 to 1.270 million units Median: 1.228 million units SAAR	Aug = 1.282 million units, SAAR	Down to an annualized rate of 1.208 million units. On a not seasonally adjusted basis, we look for total starts of 108,200 units which, as with our forecast for unadjusted permits, reflects a slower pace of activity in the South region than would have been the case had it not been for Hurricane Florence. And, as with housing permits, even if there is some hurricane-related noise in the data on housing starts, we do not expect the underlying patterns to have changed, with single family starts grinding higher and multi-family starts stubbornly holding at levels oddly out of line with what remains the largest backlog of multi-family units under construction in over 40 years. As we have been noting for some time, we don't see much scope for single family starts to rise at a faster pace but see plenty of room for multi-family starts to fall at a faster pace, with the net effect being that total starts remain fairly range bound.
September Leading Economic Index Thursday, 10/18 Range: 0.3 to 0.6 percent Median: 0.5 percent	Aug = +0.4%	Up by 0.5 percent.
September Existing Home Sales Friday, 10/19 Range: 5.240 to 5.380 million units Median: 5.310 million units SAAR	Aug = 5.340 million units, SAAR	Down to an annualized sales rate of 5.240 million units. If we had to pick only one word with which to characterize existing home sales in September, that word would be "challenging." For openers, September is a seasonally weak month for existing home sales (which, recall, are booked at closing rather than the signing of the sales contract). Since 1999, the starting point for the current series, not seasonally adjusted sales have never increased in the month of September, with an average August-to-September decline of 15.0 percent. Next, there was one fewer selling (or, closing) day this September than last September, which will bias year-on-year sales lower on a not seasonally adjusted basis. Finally, Hurricane Florence surely disrupted sales in the South region, the only question being to what extent. These September-specific effects come against the backdrop of lean inventories having for some time been a material drag on sales, hence our low expectations for the September data. On a not seasonally adjusted basis, we look for total existing home sales of 454,000 units, down 15.8 percent from August and down 1.7 percent year-on-year. In addition to sales in the South region having been held down by Florence, our forecast anticipates weak sales in the West region. Reports on September activity from several large markets in the West have had a common theme – lower sales but sharp increases in inventories. The increase in listings is consistent with what we've seen more broadly over recent months, i.e., listings rising both month-to-month and, after a string of 37 consecutive declines, year-on-year. This, along with price appreciation having softened, offers hope that sales will gain some traction over coming months. Our forecast for unadjusted September sales would put the running 12-month total, which we see as the most reliable gauge of the underlying sales rate, at 5.457 million units. While we see potential for this trend sales rate to rise over coming months, we continue to think that, at 5.529 million units, the summer of 2017 will prove to be the high point for existing home sales in the current cycle.

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